

INDUSTRY CIRCULAR

OFFICE OF THE COMMISSIONER OF INTERNAL REVENUE
ALCOHOL AND TOBACCO TAX DIVISION



WASHINGTON, D. C. 20224

Industry Circular No. 65-25

September 7, 1965

EXCISE TAX REDUCTION ACT OF 1965

Manufacturers and importers of tobacco products, manufacturers of cigarette papers and tubes, proprietors of export warehouses, dealers in tobacco materials, and others concerned:

Purpose. The purpose of this industry circular is to advise you of the enactment of the Excise Tax Reduction Act of 1965, Public Law 89-44, to call your attention to the amendments to the statutes which affect tobacco, and to inform you concerning actions to be taken and procedures to be followed as a result of these amendments.

Background. On June 21, 1965, H. R. 8371 was enacted into law as Public Law 89-44. This Act made the following amendments to the statutes affecting tobacco:

1. Effective July 1, 1965, the tax rate of \$4 per thousand on small cigarettes was made permanent by amendment of Section 5701 of the Internal Revenue Code.
2. Effective on the same date, the definitions of "cigar" and "cigarette" contained in Section 5702 were expanded to recognize the use of reconstituted tobacco as a wrapper. Industry Circular No. 65-15, issued June 23, 1965, sets forth the procedure to be followed when reconstituted tobacco is to be used as a wrapper for rolls of tobacco.
3. Effective October 1, 1965, Section 5705 will provide that as an alternative to the filing of a claim for refund of tax on tobacco products or cigarette papers and tubes a claim for credit may be filed.
4. The repeal of the 10¢ per pound tax on manufactured tobacco will become effective January 1, 1966.
5. Controls on the handling and shipment of tobacco materials will be eliminated on January 1, 1966.

Actions to be taken and procedures to be followed.

Manufacturer of tobacco products

Claim for credit

In lieu of filing a claim for refund of tax paid on tobacco products lost (otherwise than by theft) or destroyed, by fire, casualty,

or act of God, while in your possession or ownership, or withdrawn by you from the market, you may, effective October 1, 1965, file a claim for credit on Form 2635, "Claim - Alcohol and Tobacco Taxes," accompanied by the same evidence required in connection with a claim for refund. When you are notified by the assistant regional commissioner, alcohol and tobacco tax, of allowance of the claim for credit, you may apply the credit by making an adjusting entry on the next subsequent tax return. Of course, your remittance would be reduced by the amount of the credit. Prior to notification, you may not anticipate allowance of your claim by making an adjusting entry in a tax return. A Treasury decision will be issued to provide for this alternative in the regulations.

Manufactured tobacco

Since the repeal of the 10¢ per pound tax on manufactured tobacco does not become effective until January 1, 1966, you will continue to report operations and transactions at each of your factories handling manufactured tobacco (smoking tobacco, chewing tobacco, and snuff) under existing regulations until the close of business December 31, 1965. Your tax return for the period ending December 31, 1965, will include removals of manufactured tobacco until the close of business on that day. If your operations and transactions are in manufactured tobacco only, your December report should be marked "Concluding Report." The assistant regional commissioner, alcohol and tobacco tax, will take the necessary actions to terminate the related bond and permit. The same procedures apply also for a factory which produces only manufactured tobacco, but which receives cigars or cigarettes in bond. With the termination of the bond and permit, neither cigars nor cigarettes may be received in bond in such factory. If you conduct operations and transactions in manufactured tobacco in a factory where either cigars or cigarettes, or both are manufactured, you may, beginning January 1, 1966, continue such operations as contemplated by Section 270.72 of the regulations. In such case, your records should show the date and total quantity, in pounds, of manufactured tobacco and tobacco materials received, shipped or delivered, lost, and destroyed. The regulations, monthly reports, and tax returns will be revised to reflect repeal of the tax on manufactured tobacco.

PLEASE NOTE: There are no provisions in the law for floor stocks refunds in connection with the termination of the tax on manufactured tobacco; and beginning January 1, 1966, the claims provisions in Sections 5705 and 5708 of the Code will not apply to manufactured tobacco. However, a claim relating to manufactured tobacco that is filed or mailed on or before December 31, 1965, will be processed.

Also, with the elimination of the reporting of manufactured tobacco, statistics will no longer be compiled by the Internal Revenue Service on the production and removal of manufactured tobacco.

Tobacco materials

With the elimination of all controls on the handling and shipment of tobacco materials, beginning January 1, 1966, you will not be subject to the restrictions presently contained in the regulations regarding their handling and shipment, and you will not be required to show them in your records unless cigars or cigarettes are produced in the factory. If cigars or cigarettes are produced, then your records should show the date and total quantity, in pounds, of manufactured tobacco and tobacco materials received, shipped or delivered, lost, and destroyed.

Manufacturer of cigarette papers and tubes

In lieu of filing a claim for refund of tax paid on cigarette papers and tubes lost (otherwise than by theft) or destroyed, by fire, casualty, or act of God, while in your possession or ownership, or withdrawn by you from the market, you may, effective October 1, 1965, file a claim for credit by utilizing Form 2635, and by following the procedures outlined above for the manufacturer of tobacco products. A Treasury decision will be issued to provide for this alternative in the regulations.

Dealer in tobacco materials

Beginning on January 1, 1966, you may operate as a dealer in tobacco materials without bond and without maintaining the records and observing the restrictions on handling, shipment, and delivery of tobacco materials presently required by the regulations. You may handle tobacco materials in any manner at any place so long as such handling does not result in a taxable tobacco product (cigar or cigarette). The assistant regional commissioner, alcohol and tobacco tax, for your region, will take the necessary actions to terminate bonds in effect at the close of business December 31, 1965. The regulations in Part 280, "Dealers in Tobacco Materials," will be revoked in their entirety effective January 1, 1966.

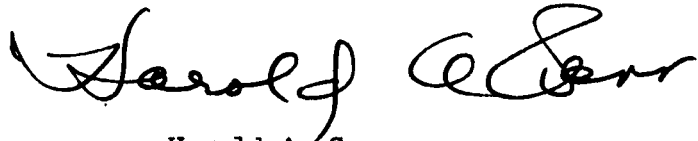
Export warehouse proprietor

Because the elimination of the 10¢ per pound tax on manufactured tobacco will become effective January 1, 1966, your December 1965 monthly report will be the last monthly report in which you will include manufactured tobacco. Beginning January 1, 1966, manufactured tobacco can be received by you and stored, transferred, or removed for export without specific requirements to maintain a record of it, to include it in your monthly report, or to show it in the notice of removal. Cigars and cigarettes, however, will be reported and accounted for as heretofore. The appropriate forms and applicable regulations will be revised.

Importer

The repeal of the 10¢ per pound tax on manufactured tobacco will become effective January 1, 1966. Beginning on that date, you will not be required to pay any internal revenue tax on tobacco, other than cigars and cigarettes, and all internal revenue restrictions will be lifted on the removal of tobacco materials from customs custody. This, however, has nothing to do with the payment of customs duty.

Inquiries. Inquiries concerning this circular should refer to its number and be addressed to your assistant regional commissioner, alcohol and tobacco tax.

A handwritten signature in dark ink, appearing to read "Harold A. Serr". The signature is fluid and cursive, with the first name "Harold" being more prominent and the last name "Serr" following in a similar style.

Harold A. Serr
Director, Alcohol and Tobacco Tax Division